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annual report 1972

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BRENDA MINES LTD.

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BRENDA MINES LTD.

(Incorporated under the Companies Act, British Columbia)

REGISTERED OFFICE: The Mine Office, Brenda Mines Road, Out of Peachland, B.C.

DIRECTORS

Bernard O. Brynelsen	Vancouver, B.C.
Mervin E. Davis	Vancouver, B.C.
John A. Hall	Toronto, Ont.
Shigeji Kizuka	Vancouver, B.C.
Hidemasa Kubo	Tokyo, Japan
Morris M. Menzies	Vancouver, B.C.
Richard V. Porritt	Toronto, Ont.
Alfred Powis	Toronto, Ont.
William S. Row	Toronto, Ont.

OFFICERS

President	Bernard O. Brynelsen
Executive Vice-President	Richard V. Porritt
Vice-President	Mervin E. Davis
General Manager	John A. Hall
Secretary	B. H. Grose
Treasurer	E. K. Cork
Comptroller	A. H. Zimmerman

MINE OFFICE: P.O. Box 420, Peachland, B.C., G. H. Montgomery, Manager.

SOLICITORS: Davis & Company, 14th floor, 1030 West Georgia Street, Vancouver.

AUDITORS: Peat, Marwick, Mitchell & Co., 900 West Hastings Street, Vancouver.

TRANSFER AGENT AND REGISTRAR: Canada Permanent Trust Company,
455 Granville Street, Vancouver, and
1901 Yonge Street, Toronto.

ANNUAL MEETING: May 2, 1973, 11:30 a.m., Hotel Vancouver, Vancouver, B.C.

DIRECTORS' REPORT TO THE SHAREHOLDERS

Your Directors submit herewith the Annual Report of your Company together with the report of your auditors for the year ended December 31, 1972.

The six months' production of both copper and molybdenum concentrates was higher than in the 1971 period and unit production costs were lower. The copper concentrate was sold currently but molybdenum sales were slow and the unsold inventory increased to 10.3 million pounds.

The value of concentrates produced was substantially lower than in the 1971 period, due to weaker metal prices and the drastic change from premium to discount on conversion of U.S. dollar revenue from sales and, as well, to lower realizations from copper concentrate diverted from Japanese smelters. Further, the value of production was reduced by an adjustment to bring the valuation of unsold molybdenum inventory at December 31, 1971 in line with current lower prices.

Increased molybdenum sales are forecast for the second half, which should minimize any further increase in the unsold inventory.

August 18, 1972.

Printed in Canada

BRENDA MINES LTD.

Mine and Registered Offices: Peachland, B.C.

Interim Report to the Shareholders

Six Months Ended June 30, 1972

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N. D. Brynelsen

February 14, 1973.

President.

BRENDA MINES LTD.

(Incorporated under the Companies Act, British Columbia)

REGISTERED OFFICE: The Mine Office, Brenda Mines Road, Out of Peachland, B.C.

DIRECTORS

Bernard O. Brynelsen - - - - - - - - - - Vancouver, B.C.

FINANCIAL SUMMARY

Six Months Ended June 30

(not audited)

	1972	1971
OPERATIONS	(thousands)	
Value of concentrates produced	$ 13,479	$ 15,142
Operating costs	7,165	7,131
Interest on long-term debt	2,419	2,390
Depreciation and preproduction expenses written off	4,707	4,586
Provided for mining taxes	110	145
	14,401	14,252
Net earnings (loss)	$ (922)	$ 890
Earnings (loss) per share	(21.5)¢	20.8¢

SOURCE AND APPLICATION OF FUNDS		
(1971 restated for comparative purposes)		
Working capital, beginning of year	$ 15,482	$ 6,989
Source		
Operations		
— Net earnings	$ (922)	$ 890
— Depreciation and preproduction expenses written off	4,707	4,586
— Amortization of financing expenses	332	332
— Other	92	(7)
Miscellaneous	54	126
	$ 4,263	$ 5,927
Application		
Fixed assets	$ 807	$ 767
Other	—	28
	807	795
Increase in working capital	3,456	5,132
Working capital, end of period	$ 18,938	$ 12,121

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DIRECTORS' REPORT TO THE SHAREHOLDERS

Your Directors submit herewith the Annual Report of your Company together with the report of your auditors for the year ended December 31, 1972.

Earnings

Direct operating costs at the mine per ton milled were lower, but revenues were adversely affected by lower metal prices, higher charges on diverted copper concentrate and the unfavourable change in foreign exchange rates. The result was a net loss of $1,519,595 after interest charges of $4.1 million and $10.1 million of write-offs. Municipal and provincial mining taxes amounted to $0.68 million.

A net profit of $356,728 was achieved in the fourth quarter as a result of higher molybdenum sales, lower shipping costs due to a higher grade of copper concentrate and the savings involved because no diversion was required during the period.

Financial

After including the First Mortgage Bonds as a current liability, the working capital was reduced from $15.4 million to $2.7 million. Without provision for repayment of $19.6 million 7.5% First Mortgage Bonds, due June 30, 1973, working capital would have increased during the year by $6.9 million, of which $4.35 million is represented by the increase in molybdenum concentrate inventory. The outstanding debt was $56.5 million at year-end. A plan to refinance the First Mortgage debt of $19.6 million is under negotiation.

Sales and Markets

Against production of concentrate containing 10.0 million pounds of molybdenum, sales were 6.6 million pounds and the unsold inventory increased to 11.0 million pounds. The demand for molybdenum improved in the fourth quarter.

The copper concentrate sales were based on an average price of 44.8¢ per pound compared to 48¢ per pound in 1971. The restriction on copper concentrate shipments to Japan continued throughout the year resulting in the diversion of 25.2% of shipments to other smelters. The $8.0 million normal working stock referred to in Note 1 of the financial statements includes some $2.0 million representing a cargo of copper concentrate awaiting early shipment to Japan.

Consumption of most major metals was substantially improved during 1972 as western world economies experienced strong growth.

The predicted world copper surplus did not materialize as consumption in the U.S.A., Japan and Germany increased sharply, particularly in the fourth quarter. Commodity Exchange stocks were up about 90,000 tons but net exports to the Communist bloc and reduction in fabricator inventories resulted in a close balance between supply and demand.

London Metal Exchange prices were equivalent to 45-48¢ U.S. per pound apart from speculative rises to 53¢ in March and 50¢ in September. In the United States, the producers' price was 50¼¢ in January and changed to 52½¢ in February, 50½¢ in July and 53¢ in January, 1973. The outlook for 1973 is for continued expansion in consumption as reflected in the rapid rise in overseas prices this year.

Molybdenum production cutbacks resulted in a drop of 8 million pounds in Free World production during 1972. Consumption was up 10 million pounds to 134 million and stocks rose 9 million to 148 million including 47 million in the U.S. government stockpile.

By year-end, production and consumption were in balance and there are prospects for some stock reduction in 1973. Prices were weak throughout 1972 but there was some evidence of firmness at year-end.

Outlook

The general economic recovery, firmer metal prices and efficient mine operation indicate a positive trend qualified by uncertain provincial government legislation and escalating costs for labour, consumables and treatment of concentrates.

Your Directors record their appreciation of the excellent operating results accomplished by the management and employees during 1972.

On behalf of the Board,

B. Brynelsen

February 14, 1973.

President.

GENERAL MANAGER'S REPORT

To the President and Directors:

I submit herewith my report on operations for the year ended December 31, 1972.

Operations		1972	1971
Waste Stripped	— Tons	5,902,100	6,911,300
Low-Grade Ore Stockpiled	— Tons	3,233,400	2,339,100
Ore Milled	— Tons	9,503,190	8,987,210
Ore Milled Per Day	— Tons	25,965	24,622
Copper Grade	— % Cu	0.208	0.212
Copper Recovery	— %	90.43	89.77
Molybdenum Grade	— % Mo	0.061	0.062
Molybdenum Recovery	— %	86.06	86.13
Copper Concentrate	— Tons	82,703	80,675
Copper Concentrate Grade	— % Cu	21.58	21.17
Molybdenum Concentrate	— Tons	8,975	8,559
Molybdenum Concentrate Grade	— % Mo	55.97	56.09

Open Pit

The operating performance in the open pit was steady, though productivity fell from 967 to 922 tons per manshift due to uphill and longer haulage to the dumps.

After milling 9,503,000 tons, ore reserves declined by 8,823,000 tons to 145,177,000 tons grading 0.180% copper and 0.048% molybdenum.

The average grade of ore milled to date has been higher than the average of ore reserves. The mining sequence being followed is expected to result in an estimated average grade of 0.201% copper and 0.059% molybdenum for 1973.

Concentrator

The mill operated 95.2% of possible time and averaged 25,965 tons per day. Metal recoveries and concentrate grades remained at normal levels.

The new circuit for copper concentrate consisting of a regrind mill, additional flotation cells and a dryer was placed in operation in December. A substantial improvement in the concentrate grade is now being achieved with only a minor reduction in copper recovery.

The fourth tertiary crusher was placed in service in March, resulting in a finer product and a reduction in grinding cost. Further savings are indicated by a "Particle Size and Percent Solids Monitor", an instrument which provides information for more accurate control of the grinding operation.

Leaching of molybdenum concentrate was resumed in November to restore the working inventory of leached concentrate.

The program of environmental improvement involved some creek diversion to reduce erosion, the seeding of 12 acres with grass and tests toward promoting vegetation on the tailings area. The test planting was encouraging.

General

Paving of the 16-mile access road to the mine was begun in the fall and should be completed in early summer 1973.

The work force at December 31, 1972 totalled 92 staff and 304 hourly-rated employees.

A marked improvement appeared in the accident record with 6 compensable injuries compared to 26 in 1971.

The Collective Agreement with the United Steelworkers of America expires on February 28, 1973. Negotiations for a new contract were underway at the year-end.

I wish to acknowledge with thanks the assistance and support of the Senior Officers and Directors. All departments worked effectively and recognition of this efficient performance is expressed to Mr. G. H. Montgomery, Manager, his staff and all employees.

Respectfully submitted,

JOHN A. HALL, P.Eng.,
General Manager.

February 6, 1973.

STATEMENT OF EARNINGS

YEAR ENDED DECEMBER 31, 1972 (With comparative figures for 1971)

	1972	1971
Gross value of concentrates produced	$30,137,501	30,232,352
Less smelter and transportation charges	3,070,089	2,357,696
	27,067,412	27,874,656
Cost of concentrate production	13,145,542	12,733,044
Administration, selling and general expense	708,860	1,022,000
Municipal and sundry taxes	542,911	529,142
Depreciation and depletion (Note 3)	3,667,245	3,524,826
Preproduction expenditure written off (Note 3)	5,752,298	5,750,742
	23,816,856	23,559,754
Operating income	3,250,556	4,314,902
Interest on long-term debt	4,134,414	4,097,501
Financing expense written off (Note 3)	664,259	664,259
	4,798,673	4,761,760
Deduct other income	169,428	250,894
	4,629,245	4,510,866
Loss for the year before mining taxes payable	(1,378,689)	(195,964)
Mining taxes payable	140,906	141,398
Loss before extraordinary income	(1,519,595)	(337,362)
Foreign exchange gain realized on conversion of long-term debt	—	1,424,095
Net earnings (loss) for the year	$ (1,519,595)	1,086,733
Earnings (loss) per share:		
Before extraordinary income	$(0.35)	(0.08)
After extraordinary income	(0.35)	0.25

STATEMENT OF RETAINED EARNINGS

Balance at beginning of year:	1972	1971 Restated (Note 9)
As previously reported	$ 3,806,267	2,719,534
Adjustment of prior period mining taxes (Note 9)	121,113	121,113
As restated	3,685,154	2,598,421
Net income (loss) for the year	(1,519,595)	1,086,733
Retained earnings at end of year	$ 2,165,559	3,685,154

See accompanying notes to financial statements.

BRENDA MINES LTD.

BALANCE SHEET — DECEMBER 31, 1972 (With comparative figures for 1971)

ASSETS

	1972	1971 Restated (Note 9)
Current assets:		
Cash and short-term commercial notes	$ —	1,308,620
Accounts receivable ($4,786,079 due from an associate)	6,218,053	6,795,846
Inventories of concentrates and stores — concentrates at estimated realizable value, other inventories at lower of cost or replacement cost (Note 1)	19,875,795	13,041,619
Prepaid expenses	16,483	107,479
Total current assets	26,110,331	21,253,564
Fixed assets (Notes 2 and 3)	39,275,402	41,060,151
Other:		
Preproduction expenditures less amortization (Note 3)	1,438,074	7,190,372
Financing expense less amortization (Note 3)	3,321,288	3,985,547
Refundable power deposit (Note 4)	1,000,000	1,250,000
Other deposits	80,000	80,000
	5,839,362	12,505,919
	$71,225,095	74,819,634

See accompanying notes to financial statements.

AUDITORS' REPORT

We have examined the balance sheet of Brenda Mines Ltd. as of December 31, 1972 and the statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Vancouver, British Columbia,
January 19, 1973.

LIABILITIES AND SHAREHOLDERS' EQUITY

	1972	1971 Restated (note 9)
Current liabilities:		
Bank overdraft (in 1971 demand loan) (Note 5)	$ 140,917	1,980,000
Accounts payable ($2,145,600 due to an associate)	3,433,650	3,650,224
Mining taxes payable	243,417	262,511
Debt due within one year (Note 6)	19,601,500	—
Total current liabilities	23,419,484	5,892,735
Long-term debt (Notes 6 and 7)	36,930,475	56,532,168
Unrealized foreign exchange gain (Note 7)	491,579	491,579
Shareholders' equity:		
Capital stock:		
Authorized 5,000,000 shares without nominal par value, issued 4,282,000 shares	8,217,998	8,217,998
Retained earnings, per accompanying statement	2,165,559	3,685,154
Total shareholders' equity	10,383,557	11,903,152
	$71,225,095	74,819,634

On behalf of the Board:

B. BRYNELSEN, Director.

R. V. PORRITT, Director.

IE SHAREHOLDERS

In our opinion, these financial statements present fairly the financial position of the company at December 31, 1972 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.,
Chartered Accountants.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED DECEMBER 31, 1972 (With comparative figures for 1971)

	1972	1971 Restated (Note 9)
Working capital at beginning of year	**$15,360,829**	6,868,153
Source of Funds:		
Operations:		
Net earnings (loss) for the year	**(1,519,595)**	1,086,733
Add items not requiring a cash outlay:		
Depreciation, depletion and amortization	**10,083,802**	9,939,827
Other	**201,688**	32,930
Total from operations	**8,765,895**	11,059,490
Reduction in power deposits	**250,000**	250,000
Other	**—**	6,224
	9,015,895	11,315,714
Application of Funds:		
Purchase of fixed assets (less proceeds $104,027; 1971 $174,854)	**2,084,184**	1,404,202
Reduction in long-term debt	**19,601,693**	1,418,836
	21,685,877	2,823,038
Increase (decrease)	**(12,669,982)**	8,492,676
Working capital at end of year	**$ 2,690,847**	15,360,829

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1972

1. INVENTORIES OF CONCENTRATES:

Of $18,500,000 of copper and molybdenum concentrates in inventory, approximately $8,000,000 represents working stocks normally required to serve customers in a wide-spread market. The valuation of the inventory of molybdenum concentrate surplus to these requirements includes provision for carrying charges and a possible deterioration in realizations.

2. DETAILS OF FIXED ASSETS ARE AS FOLLOWS:

	1972	1971
Buildings, equipment and related facilities	$41,727,402	40,068,336
Mobile equipment	6,667,883	6,509,232
Residential land and buildings	214,465	222,657
	48,609,750	46,800,225
Less accumulated depreciation	9,616,661	6,035,449
	38,993,089	40,764,776
Mineral claims and leases, at cost less depletion	282,313	295,375
	$39,275,402	41,060,151

3. DEPRECIATION AND AMORTIZATION:

(i) Depreciation is provided on depreciable assets at rates ranging from 6⅔% to 12½% per annum.

(ii) Mineral claims and leases are being depleted over fifteen years.

(iii) Preproduction expenditure is being amortized in equal monthly instalments over the three years ending March 31, 1973.

(iv) Financing expense is being amortized over the expected term of the related long-term debt.

4. REFUNDABLE POWER DEPOSIT:

Under an agreement with the British Columbia Hydro and Power Authority for the supply of electricity the Company made deposits of $2,000,000, which bear interest at 5%. The balance at December 31, 1972 of $1,250,000 (of which $250,000 is currently due) will be refunded in five equal annual instalments ending on August 1, 1977. The Company is committed to pay at least $500,000 for electricity in each of the five years ending December 31, 1977.

5. BANK DEMAND LOAN:

The Company has issued 7% Series C first mortgage bonds amounting to $4,000,000 and pledged accounts receivable and inventories as security for current bank indebtedness.

6. LONG-TERM DEBT:

	1972	1971
Bonds, repayable out of cash flow, as defined:		
7.5% first mortgage bonds, due June 30, 1973	$19,600,000	19,600,000
7.3% second mortgage bonds, due March 31, 1975 ($6,971,475 U.S. funds)	7,006,332	7,006,332
7.2% secured income bonds, due December 31, 1977	29,800,000	29,800,000
	56,406,332	56,406,332
Liability payable when the secured income bonds have been retired	50,000	50,000
Mortgages payable	75,643	75,836
	56,531,975	56,532,168
Less current portion	19,601,500	—
	$36,930,475	56,532,168

The bonds outstanding are secured respectively by first, second and third fixed and floating charges on the assets of the Company.

Among other things, the trust deeds, securing the bonds, prohibit the payment of dividends until the bonds and accrued interest thereon have been paid in full.

Negotiations are in progress to either extend or refinance the 7.5% first mortgage bonds, which become due on June 30, 1973.

7. FOREIGN CURRENCY:

Current assets in U.S. dollars have been converted at par. In 1972, the Company renewed its foreign exchange contract at substantially the same rate as in 1971, thereby causing no change in the unrealized foreign exchange gain. It is the Company's intention to renew these contracts when due.

8. INCOME TAXES:

The Company has been granted exemption from Federal income tax for the three year period which will end February 28, 1973.

The Company has provided depreciation and written off preproduction expenditure in its accounts. The estimated future income tax benefit which will accrue to the Company when these items are charged for tax purposes has not been recorded, but at December 31, 1972 amounted to approximately $9,000,000.

9. RESTATEMENT OF 1971 ACCOUNTS:

The prior period adjustment reflects additional mining taxes assessed on 1970 operations.

Certain 1971 comparative figures have been restated to conform to the current year's presentation.

Printed in Canada